

**REPORT OF THE AUDIT OF THE
JEFFERSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JEFFERSON COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Jefferson County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to the Jefferson County Sheriff's major federal program: Internal Revenue Service - Reimbursement of Overtime and Other Expenses (CFDA #21.N/A)

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Jefferson County Sheriff had total receipts of \$25,010,022, which was a \$1,539,992 decrease from the prior year. Except for reimbursed expenses in the amount of \$10,207,413, which includes Louisville/Jefferson County Metro Government contributions of \$509,465, the Sheriff paid 25% of receipts to the Louisville/Jefferson County Metro Government in the amount of \$3,667,298. This was a decrease of \$116,623 from the prior year. In addition, 75% operating fund expenditures increased by \$694,900.

Lease Agreements:

The Sheriff's office is committed to lease agreements totaling \$90,954 as of December 31, 2011.

Report Comment:

2011-01 The Sheriff Should Advertise For Bids On Purchases That Exceed \$20,000 In Accordance With KRS Chapter 45A

Deposits:

The Sheriff's deposits as of December 2, 2011 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$187,676,383

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

| | |
|--|----|
| INDEPENDENT AUDITOR’S REPORT..... | 1 |
| STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS..... | 3 |
| STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES OF THE SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS | 5 |
| NOTES TO THE FINANCIAL STATEMENTS..... | 8 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... | 13 |
| NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 14 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 17 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 21 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... | 25 |
| APPENDIX A: SHERIFF’S ADDITIONAL RESPONSE TO AUDIT COMMENT | |
| APPENDIX B: AUDITOR’S REPLY | |



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
Honorable John E. Aubrey, Jefferson County Sheriff
Members of the Louisville/Jefferson County Metro Council

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Jefferson County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2011. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States and Local Governments and Non-Profit Organization, and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
Honorable John E. Aubrey, Jefferson County Sheriff
Members of the Louisville/Jefferson County Metro Council

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comment:

2011-01 The Sheriff Should Advertise For Bids On Purchases That Exceed \$20,000 In Accordance With KRS Chapter 45A

This report is intended solely for the information and use of the Sheriff and members of the Louisville/Jefferson County Metro Council, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal line extending to the right.

Adam H. Edelen
Auditor of Public Accounts

August 31, 2012

JEFFERSON COUNTY
JOHN E. AUBREY, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

| | | | | |
|---------------------------------------|----|-----------|---------|------------|
| Federal Grants | | \$ | 114,312 | * |
| State Grants | | | 30,250 | * |
| State Fees for Services | | | | |
| Attending Court | \$ | 1,723,304 | * | |
| Conveyance of Prisoners | | 103,788 | * | |
| Sequestered Jurors | | 15,745 | * | |
| Kentucky Law Enforcement Program Fund | | 808,127 | * | |
| Court Security | | 468,762 | * | 3,119,726 |
| | | | | |
| Metro Government | | | | 509,465 * |
| | | | | |
| County Clerk | | 1,249,199 | | |
| County Clerk (Reimbursed) | | 97,662 | * | 1,346,861 |
| | | | | |
| Commission on Taxes | | 9,410,917 | | |
| Commission on Taxes (Reimbursed) | | 5,697,944 | * | 15,108,861 |
| | | | | |
| Fees Collected for Services: | | | | |
| Auto Inspections | | 257,480 | | |
| Serving Papers | | 2,022,021 | | |
| Serving Papers (Reimbursed) | | 375 | * | |
| Executions | | 7,979 | | |
| Executions (Reimbursed) | | 157,562 | * | |
| Concealed Weapon License Fees | | 126,154 | | |
| Data Services | | 26,923 | | 2,598,494 |
| | | | | |
| Other Revenues: | | | | |
| 10% Add On Fee | | 1,620,637 | | |
| Reimbursements | | 249,948 | * | |
| Federal Reimbursements | | 230,169 | * | |
| Miscellaneous | | 13,048 | | |
| Interest Earned | | 68,251 | | 2,182,053 |
| | | | | |
| Total Revenues | | | | 25,010,022 |

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
 JOHN E. AUBREY, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures

Payments to State:

| | | | |
|----------------|----|---------|--|
| Reimbursements | \$ | 526,048 | |
|----------------|----|---------|--|

Other Expenditures:

| | | | |
|----------------------------|----|---------------|----------------|
| Executions - Third Parties | \$ | 157,562 | |
| Serving Papers - Refunds | | 375 | |
| Sequestered Jurors | | 15,745 | |
| Cobra Insurance & Other | | <u>67,346</u> | <u>241,028</u> |

| | | | | |
|--------------------|--|--|----|----------------|
| Total Expenditures | | | \$ | <u>767,076</u> |
|--------------------|--|--|----|----------------|

| | | | | |
|--------------|--|--|--|------------|
| Net Revenues | | | | 24,242,946 |
|--------------|--|--|--|------------|

Payments to State Treasurer:

| | | | | |
|--------------------|--|------------------|--|-------------------|
| 75% Operating Fund | | 20,575,648 | | |
| 25% County Fund | | <u>3,667,298</u> | | <u>24,242,946</u> |

| | | | | |
|------------------------------------|--|--|----|-----------------|
| Balance Due at Completion of Audit | | | \$ | <u><u>0</u></u> |
|------------------------------------|--|--|----|-----------------|

* Includes reimbursed expenses in the amount of \$10,207,413 for the audit period. See Note 1 of Notes to Financial Statements.

JEFFERSON COUNTY
JOHN E. AUBREY, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2011

| | 75% Operating Fund | 25% County Fund | Totals |
|--|--------------------------|-----------------------|-------------------|
| Fund Balance - January 1, 2011 | \$ 0 | \$ 0 | \$ 0 |
| <u>Revenues</u> | | | |
| Fees Paid to State - Operating Funds (75%) | 20,575,648 | | 20,575,648 |
| Fees Paid to State - County Funds (25%) | | 3,667,298 | 3,667,298 |
| | <u>20,575,648</u> | <u>3,667,298</u> | <u>24,242,946</u> |
| Total Funds Available | <u>20,575,648</u> | <u>3,667,298</u> | <u>24,242,946</u> |
| <u>Expenditures</u> | | | |
| Louisville Metro | | 2,519,771 | 2,519,771 |
| Personnel Services- | | | |
| Officials Statutory Maximum | 110,747 | | 110,747 |
| Officials Incentive Training Pay | 3,679 | | 3,679 |
| Deputies' Salaries | 11,567,097 | | 11,567,097 |
| Overtime Gross | 202,455 | | 202,455 |
| Employee Benefits- | | | |
| Employer's Share Social Security | 860,032 | | 860,032 |
| Employer's Share Retirement | 3,762,005 | | 3,762,005 |
| Employer's Paid Health & Life Insurance | 2,025,817 | | 2,025,817 |
| Sick Leave Conversion | 26,632 | | 26,632 |
| Workers Compensation Insurance | 91,479 | | 91,479 |
| Contracted Services- | | | |
| Advertising | 1,466 | | 1,466 |
| Legal Services | 7,898 | | 7,898 |
| MIS Services | 7,112 | | 7,112 |
| Materials and Supplies- | | | |
| Office Materials and Supplies | 65,934 | | 65,934 |
| Printing | 193,766 | | 193,766 |
| Uniforms | 90,230 | | 90,230 |
| Ammunition | 3,284 | | 3,284 |

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
 JOHN E. AUBREY, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

| | 75% | 25% | |
|-------------------------------------|-----------|--------|-----------|
| | Operating | County | |
| | Fund | Fund | Totals |
| <u>Expenditures</u> (Continued) | | | |
| Materials and Supplies- (Continued) | | | |
| Computer Supplies | \$ 15,944 | \$ | \$ 15,944 |
| Other Charges- | | | |
| Bonds and Insurance | 357,332 | | 357,332 |
| Dues | 22,333 | | 22,333 |
| Discretionary Expenses | 25,000 | | 25,000 |
| Postage | 66,000 | | 66,000 |
| Fixed Telephone | 62,940 | | 62,940 |
| Mobile Telephone | 44,042 | | 44,042 |
| Radio Charges | 12,916 | | 12,916 |
| Communication Maintenance | 9,994 | | 9,994 |
| Equipment Maintenance | 8,384 | | 8,384 |
| Computer Maintenance | 5,931 | | 5,931 |
| Office Equipment Rental | 17,186 | | 17,186 |
| Other Equipment Rental | 2,676 | | 2,676 |
| Rent | 12,020 | | 12,020 |
| Utilities | 5,748 | | 5,748 |
| Training & Seminars | 20,016 | | 20,016 |
| Travel | 87,039 | | 87,039 |
| Subscriptions | 12,964 | | 12,964 |
| Physical and Medical | 37,190 | | 37,190 |
| Miscellaneous | 6,662 | | 6,662 |
| Auto Expenses- | | | |
| Gasoline | 163,634 | | 163,634 |
| Insurance Claims | 5,000 | | 5,000 |
| Maintenance and Repairs | 304,813 | | 304,813 |
| Vehicle Insurance | 165,658 | | 165,658 |
| Parking | 164,960 | | 164,960 |

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
 JOHN E. AUBREY, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

| | 75% Operating Fund | 25% County Fund | Totals |
|----------------------------------|--------------------------|-----------------------|------------|
| <u>Expenditures</u> (Continued) | | | |
| Capital Outlay- | | | |
| Office Equipment | \$ 12,070 | \$ | \$ 12,070 |
| Computers | 29,655 | | 29,655 |
| Communication Equipment | (775) | | (775) |
| Law Enforcement Equipment | 1,262 | | 1,262 |
| Vehicles | 289,920 | | 289,920 |
| Total Expenditures | 20,988,147 | 2,519,771 | 23,507,918 |
| Fund Balance - December 31, 2011 | \$ (412,499) | \$ 1,147,527 | \$ 735,028 |

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 2. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

| Years of Service | % paid by Insurance Fund | % Paid by Member through Payroll Deduction |
|-------------------------|---------------------------------|---|
| 20 or more | 100% | 0% |
| 15-19 | 75% | 25% |
| 10-14 | 50% | 50% |
| 4-9 | 25% | 75% |
| Less than 4 | 0% | 100% |

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Jefferson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Jefferson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 2, 2011, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$187,676,383

Note 4. Lease Agreements

Commitments to the following lease agreements as of December 31, 2011 were:

| Item Purchased | Monthly Payment | Term of Agreement | Ending Date | Principal Balance December 31, 2011 |
|------------------------|--------------------|----------------------|----------------|---|
| Six Copy Machines | \$ 1,682 | 48 Months | 5/11/2014 | \$ 53,254 |
| Office Lease | 1,300 | 36 Months | 5/31/2014 | 37,700 |
| Total Lease Agreements | | | | <u>\$ 90,954</u> |

Note 5. State Grant

The Sheriff received a Body Armor grant from the Kentucky Office of Homeland Security in the amount of \$30,250. Funds totaling \$30,250 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2011.

Note 6. Federal Grants

A. Violence Against Woman Act (VAWA) Grant

The Sheriff was awarded violence against women investigator/intake center grant from the Kentucky Justice and Public Safety Cabinet. Federal funds in the amount of \$31,285, and matching funds in the amount of \$25,150 were expended.

B. Homeland Security Grant

The Sheriff received a grant from the U.S. Department of Homeland Security through Kentucky Office of Homeland Security in the amount of \$87,100. The Sheriff drew down \$83,387 during the 2011, for the purchase and installation of mobile data computers. As of December 31, 2011, there was an unexpended grant balance of \$3,713.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 7. Discretionary Account

The Sheriff has established a discretionary account as provided by KRS 64.345. This fund is to cover additional expenses related to homeland security emergencies, academy graduations, retirements, state and national sheriff's conventions, and extraordinary office expenses in amounts authorized by the approving authority. The account had a beginning balance of \$42,655, receipts of \$25,100, expenditures of \$17,144 and an ending balance of \$50,611 as of December 31, 2011.

Note 8. State Forfeiture Account

The Sheriff maintains an account used for receiving forfeited state drug money. This money is used to purchase law enforcement equipment. This account had a beginning balance of \$91,329, revenues of \$68,128, and expenditures of \$9,268 and an ending balance of \$150,189 as of December 31, 2011.

Note 9. Federal Forfeiture Account

The Sheriff maintains an account used for receiving forfeited federal drug money. This money is used to purchase law enforcement equipment, for training, for drug education programs, and to make drug buys. This account had a beginning balance of \$247,984, revenues of \$601,290, expenditures of \$715,257, and an ending balance of \$134,018 as of December 31, 2011.

Note 10. IRS Forfeiture Account

The Sheriff maintains an account used for receiving forfeited federal drug money. This money is used to purchase law enforcement equipment, for training, for drug education programs, and to make drug buys. This account had a beginning balance of \$506,557, revenues of \$92,484, expenditures of \$299,861, and an ending balance of \$299,180 as of December 31, 2011.

Note 11. 75% Operating Fund – Deficit Balance

The Sheriff's 75% operating fund had a deficit balance of \$412,499 as of December 31, 2011. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the Sheriff's term, which ends December 31, 2014.

Note 12. Related Party Transactions

During calendar year 2011 a special reserve deputy of the Sheriff's office did business totaling \$241,208, for vehicle maintenance, lease on storage building, and lease on a storage lot.

JEFFERSON COUNTY
JOHN E. AUBREY, SHERIFF
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

| CFDA | Program Title | Pass Through Number | Expenditures |
|---|--|---------------------------|---------------------|
| <u>U.S. Department of Justice</u> | | | |
| Passed Through from the Kentucky Justice and Public Safety Cabinet: | | | |
| 16.588 | Violence Against Women Formula Grant | VAWA-2010-Jefferson 00168 | \$ 31,285 |
| Direct Programs: | | | |
| 16.N/A | Drug Enforcement Administration - Reimbursement of Overtime | Not Available | 33,100 |
| 16.N/A | Federal Bureau of Investigation - Reimbursement of Overtime | Not Available | 16,642 |
| 16.N/A | High Intensity Drug Trafficking Area - Reimbursement of Overtime | Not Available | 58,814 |
| 16.N/A | United States Marshall Service - Reimbursement of Overtime | Not Available | 12,820 |
| 16.N/A | Federal Forfeiture Account | KY 05 60000 | <u>715,257</u> |
| Total U.S. Department of Justice | | | <u>867,918</u> |
| <u>U.S. Department of Treasury</u> | | | |
| Direct Programs: | | | |
| 21.N/A | Internal Revenue Service - Reimbursement of Overtime and Other Expenses | Not Available | 96,966 |
| 21.N/A | Internal Revenue Service Forfeiture Account | KY 05 60000 | <u>299,861</u> |
| Total U.S. Department of Treasury | | | <u>396,827</u> |
| <u>U.S. Department of Homeland Security:</u> | | | |
| Passed Through from the Kentucky Office of Homeland Security: | | | |
| Homeland Security Grant Program: | | | |
| 97.067 | Mobile Data Computers & Related Equipment | PO2 094 1100002113 1 | <u>83,387</u> |
| Total U.S. Department of Homeland Security | | | <u>83,387</u> |
| Total Cash Expenditures of Federal Awards | | | <u>\$ 1,348,132</u> |

JEFFERSON COUNTY
JOHN E. AUBREY, SHERIFF
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Sheriff of Jefferson County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2. Determination of Major Program

When determining the major program, each memorandum of understanding was considered a separate program. The Type A program for the Sheriff's office is any program for which total expenditures of federal awards exceed \$300,000 for calendar year 2011. The Internal Revenue Service – Reimbursement of Overtime and Other Expenses program met the Type A program definition for calendar year 2011.

Note 3. Noncash Expenditures

There were no noncash expenditures of federal awards for calendar year 2011.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
The Honorable John E. Aubrey, Jefferson County Sheriff
Members of the Louisville/Jefferson County Metro Council

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Jefferson County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated August 31, 2012. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Jefferson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Jefferson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

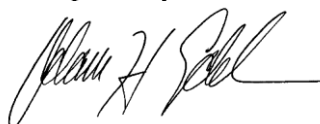
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jefferson County Sheriff's financial statements for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2011-01.

The Jefferson County Sheriff's response to the finding identified in our audit is included in the accompanying schedule of findings and questioned costs. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the members of the Louisville/Jefferson County Metro Council, the Department for Local Government, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

August 31, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
The Honorable John E. Aubrey, Jefferson County Sheriff
Members of the Louisville/Jefferson County Metro Council

**Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

We have audited the compliance of the Sheriff of Jefferson County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Sheriff's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Jefferson County Sheriff. Our responsibility is to express an opinion on the Jefferson County Sheriff's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sheriff's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Sheriff's compliance with those requirements.

In our opinion, the Jefferson County Sheriff complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Jefferson County Sheriff's office is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Sheriff's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over compliance.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

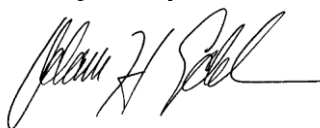
Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the members of the Louisville/Jefferson County Metro Council, the Department for Local Government, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

August 31, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JEFFERSON COUNTY
JOHN E. AUBREY, SHERIFF
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended December 31, 2011

1. The auditor's report expresses an unqualified opinion on the financial statements of the Jefferson County Sheriff.
2. No material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Jefferson County Sheriff was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Jefferson County Sheriff expresses an unqualified opinion.
6. There are no findings relative to the major federal awards programs for Jefferson County Sheriff reported in Part C of this schedule.
7. The programs tested as major program was: Internal Revenue Service – Reimbursement of Overtime and Other Expenses (CFDA #21.N/A).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Jefferson County Sheriff was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS:

2011-01 The Sheriff Should Advertise For Bids On Purchases That Exceed \$20,000 In Accordance With KRS Chapter 45A

During testing we noted purchases for tires, uniforms, vehicle maintenance and services, envelopes and other printing, that while individual line item purchases did not exceed the \$20,000 bid limit, they did in aggregate and these items were not properly bid. The vehicle maintenance and services do not require bidding if the Sheriff makes a written determination that competition is not feasible. KRS 45A.380 says, in part, "A local public agency may contract or purchase through noncompetitive negotiation only when a written determination is made that competition is not feasible and it is further determined in writing by a designee of the local public agency that: 3) The contract is for the services of a licensed professional, such as attorney, physician, psychiatrist, psychologist, certified public accountant, registered nurse, or educational specialist; a technician such as a plumber, electrician, carpenter, or mechanic; or an artist such as a sculptor, aesthetic painter, or musician...." We recommend the Sheriff comply with the provisions of KRS Chapter 45A, by either obtaining bids or having a written determination that competition was not feasible. In addition, some of the vehicle maintenance was done by a special reserve deputy, which constitutes a related party transaction, which will be referred to Louisville/Jefferson County Metro Ethics Commission.

Sheriff's Response: The Sheriff's office has advertised for bids and awarded the bid for fleet maintenance. See additional response at Appendix A.

Auditor's Reply: See Appendix B.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

THIS PAGE LEFT BLANK INTENTIONALLY

SHERIFF'S ADDITIONAL RESPONSE TO AUDIT COMMENT

SHERIFF'S ADDITIONAL RESPONSE TO AUDIT COMMENT



Colonel John Aubrey, Sheriff Jefferson County Sheriff's Office

531 Court Place, Suite 600, Louisville, Kentucky 40202 • Telephone (502) 574-5400 • Fax (502) 574-6909

1. The Sheriff Should Advertise For Bid on Purchases That Exceeded (sic) \$20,000 In Accordance with KRS 45A.380

In the first instance, this recommendation implies that the Jefferson County Sheriff's Office is statutorily mandated to follow the Kentucky Model Procurement Code for local public agencies as set forth in KRS 45A.343, et seq. However, we have been advised by our County Attorney that the utilization of the Model Procurement Code is optional because KRS 45A.343(1) states that adoption of said Code by a local public agency is permissive rather than mandatory as the General Assembly used the words "may adopt" rather than the mandatory "shall adopt". Even so, we are certainly cognizant of our alternative statutory responsibility to advertise for bids on goods or supplies with a value in excess of \$20,000 per KRS 424.260. In this regard, even prior to receipt of the State Auditor's Comments and Recommendation, we requested the County Attorney to assist us in a review of our purchasing procedures and provide legal guidance to this office to insure continued compliance with statutory purchasing procedures. Regardless of the purchasing methodology, please know that this office is committed to fiscal restraint and prudent stewardship of public funds to maximize the purchasing power of every dollar spent to operate the Jefferson County Sheriff's Office. Thus, all purchases of goods, supplies, and services required by law to be advertised for bids will be acquired by this office pursuant to the pertinent provisions of the Kentucky Revised Statutes.



SHERIFF'S ADDITIONAL RESPONSE TO AUDIT COMMENT (Continued)

Finally, this office takes umbrage at the last sentence of Comment 1 where your office implies, if not directly accuses, this office of an ethical violation because a special deputy performed mechanical services on this office's vehicles. It is critical to note that special deputies are volunteers that serve at the pleasure of the sheriff and are statutorily prohibited from receiving compensation; see, KRS 70.045(3). Comment 1 characterizes the mechanical services performed by a now former special deputy as "a related party transaction" and states your office's intent to "refer" the matter to the Louisville/Jefferson County Metro Ethics Commission. With respect to this inflammatory aspect of Comment 1, it is worthy of note that earlier in Comment 1 your office states "vehicle maintenance and services do not require bidding" and simply faults this office for not formally making a written determination that competition was not feasible in accordance with KRS 45A.380. In this regard, this response has already addressed the issue of advertising for bids and the permissive adoption of the Model Procurement Code. Even though not required to seek competitive bids for mechanical services as you unequivocally asserted, please be advised that a contract for our fleet mechanical services was recently competitively bid with the assistance and review of the Jefferson County Attorney's Office and ultimately awarded to Drexler's Auto Service, Inc., a business entity operated by the *former* special deputy in question. The new contract with Drexler's is based upon essentially the same terms and conditions as the prior mechanical services that business rendered to this office. Because Drexler's bid was determined to be the lowest and best based upon objective criteria, it is more than evident that our prior business relationship with Drexler's was a prudent use of public funds for mechanical services essential to the efficient operation of our fleet vehicles.

With the foregoing as a background we now address the wholly vague and inexplicable accusation of ethical impropriety. Because the State Auditor fails to reference which provision

of the Metro Ethics Code (Louisville Metro Code of Ordinances Chapter 21) that this office allegedly violated, it is difficult, if not impossible, to succinctly reply to an such an allegation so lacking in either specifics or substance. We would note, however, that the former special deputy in question is not a "relative" by either blood or marriage to either the Sheriff or his command staff and we can find no other possible pertinent connotation of the term "related transaction" in the Metro Ethics Code. Moreover, the Metro Ethics Commission only has authority to receive sworn complaints, LMCO §21.06, as there is no ordinal provision authorizing a so-called "referral" from a person or public agency. Therefore, this office simply does not understand the purpose of the empty threat to "refer" to the Metro Ethics Commission a transaction that is demonstrably not covered by the Metro Ethics Code and which "referral" is not authorized by that regulatory scheme.

AUDITOR'S REPLY

APPENDIX B

AUDITOR'S REPLY

The Auditor is aware that the Jefferson County Sheriff, as a local public agency, has the option under KRS 45A.343 of adopting the Model Procurement Code (MPC) as set out in KRS Chapter 45A; but the Auditor is also aware that the Sheriff, in fact, has adopted the MPC, and that its provisions apply to procurement by the Sheriff's office.

The Auditor's comment does not accuse the Sheriff of any ethical impropriety or violation. The Auditor's use of the term, "related party transaction," is not used as an ethical term, but as an accounting term, which is defined in accounting as the interaction between two parties, one of whom can exercise control or significant influence over the operating policies of the other. Since the Sheriff appointed and exercises control over the special deputy who performed some of the Sheriff's vehicle maintenance work, this relationship is, in accounting terms, a related party transaction, and must be reported by the Auditor in accordance with auditing standards. Because the Auditor does not know whether there is, or is not, any violation of the local code of ethics in connection with these related party transactions, the Auditor is following its normal procedure by referring the matter to the local board of ethics for its determination whether further review is warranted.

